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FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly period ended February 28, 1992, or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition period from _____ to _____

Commission File number 0-14996

APR 14

CRYENCO SCIENCES, INC.
(Exact name of registrant as specified in its charter)

| Delaware | 52-1471630 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

c/o Charterhouse Group International, Inc.
535 Madison Avenue - 28th Floor
New York, New York 10022
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code 212-421-3125

None
(Former name and/or address and former fiscal year, if changes)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ___ No ___

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, par value $.01 per share; 7,664,505 shares outstanding as of April 13, 1992.

CRYENCO SCIENCES, INC. AND SUBSIDIARY
(FORMERLY CRYENCO HOLDINGS, INC. AND SUBSIDIARY
AND THEIR PREDECESSOR)

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CRYENCO SCIENCES, INC. AND SUBSIDIARY
(FORMERLY CRYENCO HOLDINGS, INC. AND SUBSIDIARY
AND THEIR PREDECESSOR)

## PART I - FINANCIAL INFORMATION

### Item 1 - Financial Statements.

Introductory Comments:

The Consolidated Financial Statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. It is suggested that these Consolidated Financial Statements be read in conjunction with the financial information set forth in the Company's Annual Report for the year ended June 30, 1991.

**CRYENCO SCIENCES, INC.**
**AND SUBSIDIARIES**
**(Formerly Cryenco Holdings, Inc. and Subsidiary)**
**and Their Predecessor**

**Condensed Consolidated Balance Sheets**

| | Successor | |
|---|---|---|
| | February 29, 1992 (Unaudited) | August 31, 1991 |
| **Assets** | | |
| Current assets: | | |
| Cash | $ 539,191 | 451,661 |
| Trade accounts receivable | 1,758,686 | 2,003,534 |
| Accounts receivable from employees | 1,330 | 10,385 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 4,995,577 | 4,141,181 |
| Inventories (note 4) | 2,791,792 | 1,846,040 |
| Prepaid expenses | 90,806 | 52,125 |
| Total current assets | 10,177,382 | 8,504,926 |
| Property and equipment: | | |
| Leasehold improvements | 357,330 | 306,054 |
| Machinery and equipment | 1,466,707 | 1,263,073 |
| Office furniture and equipment | 97,816 | 69,364 |
| | 1,921,853 | 1,638,491 |
| Less accumulated depreciation | (231,422) | – |
| | 1,690,431 | 1,638,491 |
| Deferred financing costs | 711,807 | 745,800 |
| Organizational costs | 390,032 | 428,709 |
| Goodwill | 5,897,943 | 5,814,860 |
| Other assets | 62,767 | 70,737 |
| | $ 18,930,362 | 17,203,523 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 686,009 | 514,405 |
| Accounts payable | 2,064,268 | 1,026,952 |
| Accrued expenses | 673,851 | 1,112,410 |
| Customer deposits | 71,939 | 29,852 |
| Income taxes payable | 301,604 | 1,061,212 |
| Deferred income taxes | – | 96,260 |
| Total current liabilities | 3,797,671 | 3,841,091 |
| Deferred income taxes | 3,545 | 3,545 |
| Long-term debt, less current portion | 11,638,519 | 10,058,887 |
| Stockholders' equity: | | |
| Common stock, par value $.01 per share: | | |
| Class A, authorized 23,500,000 shares, issued and outstanding 7,664,505 shares | 76,645 | 76,645 |
| Class B, authorized 1,500,000 shares, none issued and outstanding | – | – |
| Additional paid-in capital | 3,223,355 | 3,223,355 |
| Retained earnings | 190,627 | – |
| | 3,490,627 | 3,300,000 |
| | $ 18,930,362 | 17,203,523 |

See accompanying notes to condensed consolidated financial statements.

**CRYENCO SCIENCES, INC.**
**AND SUBSIDIARIES**
**(Formerly Cryenco Holdings, Inc. and Subsidiary)**
**and Their Predecessor**

**Condensed Consolidated Statements of Operations**

**(Unaudited)**

| | Successor Three months ended February 29, 1992 | Predecessor Three months ended February 28, 1991 | Successor Six months ended February 29, 1992 | Predecessor Six months ended February 28, 1991 |
|---|---|---|---|---|
| Contract revenue | $ 4,890,158 | 6,419,020 | $ 9,072,439 | 10,797,126 |
| Cost of revenue | 3,591,389 | 5,476,641 | 6,738,613 | 9,040,754 |
| Gross profit | 1,298,769 | 942,379 | 2,333,826 | 1,756,372 |
| Selling, general, and administrative | 531,318 | 477,785 | 1,093,563 | 834,845 |
| Amortization expense | 97,434 | 11,168 | 187,987 | 22,335 |
| Operating income | 670,017 | 453,426 | 1,052,276 | 899,192 |
| Other expenses (income): | | | | |
| Interest expense | 298,068 | 125,538 | 569,696 | 253,592 |
| Merger – related expenses | 89,869 | – | 89,869 | – |
| Other nonoperating expense (income), net | 12,514 | – | 16,544 | (2,805) |
| Income before income taxes | 269,566 | 327,888 | 376,167 | 648,405 |
| Income tax expense | 137,452 | 131,154 | 185,540 | 259,341 |
| Net income | $ 132,114 | 196,734 | $ 190,627 | 389,064 |
| Earnings per common and common equivalent share | $ .02 | | $ .02 | |
| Weighted average common and common equivalent shares outstanding | 8,958,965 | | 8,958,965 | |

See accompanying notes to condensed consolidated financial statements.

**CRYENCO SCIENCES, INC.**
**AND SUBSIDIARIES**
**(Formerly Cryenco Holdings, Inc. and Subsidiary)**
**and Their Predecessor**

**Condensed Consolidated Statement of Stockholders' Equity**

**(Unaudited)**

| | Common stock | Additional paid-in capital | Retained earnings | Total |
|---|---|---|---|---|
| **Balance at September 1, 1991** | $ 76,645 | 3,223,355 | – | 3,300,000 |
| Net income | – | – | 190,627 | 190,627 |
| **Balance at February 29, 1992** | $ 76,645 | 3,223,355 | 190,627 | 3,490,627 |

See accompanying notes to condensed consolidated financial statements.

**CRYENCO SCIENCES, INC.**
**AND SUBSIDIARIES**
**(Formerly Cryenco Holdings, Inc. and Subsidiary)**
**and Their Predecessor**

**Condensed Consolidated Statements of Cash Flows**

**(Unaudited)**

| | Successor Six months ended February 29, 1992 | Predecessor Six months ended February 28, 1991 |
|---|---|---|
| Operating activities: | | |
| Net income | $ 190,627 | 389,064 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of property and equipment | 231,422 | 204,630 |
| Amortization expense | 187,987 | 22,336 |
| Reduction in deferred income taxes | (96,260) | – |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts receivable | 253,903 | 1,237,988 |
| Increase in costs and estimated earnings in excess of billings on uncompleted contracts | (854,396) | (1,447,058) |
| Decrease (increase) in inventories | (945,752) | 1,079,654 |
| Increase in prepaid expenses and other assets | (30,711) | (4,950) |
| Increase (decrease) in accounts payable | 1,037,316 | (649,110) |
| Increase (decrease) in accrued expenses, net of warranty provision | (438,559) | 252,627 |
| Increase in customer deposits | 42,087 | – |
| Decrease in income taxes payable | (759,608) | (478,047) |
| Net cash provided by (used by) operating activities | (1,181,944) | 607,134 |
| Investing activities: | | |
| Purchases of property and equipment | (283,362) | (103,044) |
| Acquisition costs | (162,400) | – |
| Net cash used by investing activities | (445,762) | (103,044) |
| Financing activities: | | |
| Proceeds from long-term debt, net of expenses | 1,876,236 | – |
| Principal payment of long-term debt | (125,000) | (51,901) |
| Debt issuance costs | (36,000) | – |
| Redemption of preferred stock | – | (359,343) |
| Net cash provided by (used in) financing activities | 1,715,236 | (411,244) |
| Increase in cash | 87,530 | 92,846 |
| Cash at beginning of period | 451,661 | 94,804 |
| Cash at end of period | $ 539,191 | 187,650 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for income taxes | $ 1,041,408 | 199,600 |
| Cash paid for interest | $ 348,276 | 249,011 |

See accompanying notes to condensed consolidated financial statements.

**CRYENCO SCIENCES, INC.**
**AND SUBSIDIARIES**
**(Formerly Cryenco Holdings, Inc. and Subsidiary)**
**and Their Predecessor**

**Notes to Condensed Consolidated Financial Statements**

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**(1) Acquisition, Merger and Basis of Presentation**

Effective August 30, 1991, Cryenco Holdings, Inc. (CHI or Successor) acquired, through its wholly owned subsidiary, CRYENCO, INC., all the outstanding common stock of Cryogenic Energy Company dba CRYENCO, INC. (Predecessor) for an investment of $3,300,000 (the Acquisition). The business combination has been accounted for as a purchase. As a result of the Acquisition, the financial information for the periods after the Acquisition is presented on a different cost basis than that for the periods before the Acquisition and, therefore, is not comparable.

Effective February 11, 1992, CHI was merged with and into Gulf & Mississippi Corporation (G&M) pursuant to a Merger agreement (the Merger). Upon consummation of the Merger, G&M changed its name to Cryenco Sciences, Inc. (the Company). The Merger has been accounted for as a reverse acquisition, whereby CHI is considered to be the acquiror of G&M for accounting and financial reporting purposes, using the "purchase" method, as such term is defined under generally accepted accounting principles.

The following unaudited pro forma summary presents the results of operations of the Predecessor as if the Acquisition and Merger had occurred on September 1, 1990 and of the Successor as if the Merger had occurred on September 1, 1991:

| | Successor Three months ended February 29, 1992 | Predecessor Three months ended February 28, 1991 | Successor Six months ended February 29, 1992 | Predecessor Six months ended February 28, 1991 |
|---|---|---|---|---|
| Revenue | $ 4,890,158 | $ 6,419,020 | $ 9,072,439 | $ 10,797,126 |
| Net income (loss) | $ 128,195 | $(46,830) | $ 182,789 | $(98,064) |
| Net income (loss) per common and common equivalent share | $ .01 | $(.01) | $ .02 | $(.02) |

The pro forma results do not necessarily represent results which would have occurred if the Acquisition and Merger had taken place on the dates indicated nor is it necessarily indicative of the results of future operations.

The condensed consolidated balance sheet as of February 29, 1992 and the related condensed consolidated statements of operations for the three months and six months ended February 29, 1992 and February 28, 1991, condensed consolidated statement of stockholders' equity for the six months ended February 29, 1992, and condensed consolidated statements of cash flows for the six months ended February 29, 1992 and February 28, 1991 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted only of normal recurring items. The financial statements and notes are presented as permitted by Form 10-Q, and do not contain information included in the Company's annual financial statements and notes. These financial statements should be read in conjunction with the Company's annual financial statements as included in Form S-4 filed pursuant to the Securities Exchange Act of 1933. The condensed consolidated balance sheet as of August 31, 1991 has been derived from the audited balance sheet.

In connection with the Merger, common stock was recapitalized whereby the number of authorized, issued and outstanding shares was amended. The August 31, 1991 condensed consolidated balance sheet has been retroactively restated to reflect this recapitalization and the computation of earnings per share is based on the recapitalized structure.

**(2) Earnings per Common and Common Equivalent Share**

Earnings per common and common equivalent share for the three months and the six months ended February 29, 1992 were computed by dividing net earnings attributable to common shareholders by the weighted average number of common and common equivalent shares outstanding (8,958,965 for the three months and the six months ended February 29, 1992)

**(3) Options and Warrants**

Upon consummation of the Merger, the outstanding warrants of CHI were converted into warrants to purchase 394,911 shares of Class A Common Stock and 1,086,770 shares of Class B Common Stock at $.43056 per share (the original warrants). Subsequent to February 29, 1992, the Company issued warrants to purchase 76,645 shares of Class B Common Stock at $2.50 per share (the new warrants) to the holders of the original warrants in exchange for the removal of a feature of the original warrants whereby the holders had the option to require the Company to purchase the warrants or the stock issued pursuant to the warrants. The holders of the original warrants, as amended, and the new warrants have a "cashless exercise" right, wherein in order to remit the exercise price, the holder may reduce the number of shares to be received to pay the exercise price, such reduction to be in an amount equal to the exercise price to be paid divided by the then fair market value per share. The warrants expire August 30, 2003.

Upon consummation of the Merger, 260,000 outstanding options and warrants to acquire shares of G&M were converted into options and warrants to purchase the same number of Class A Common Stock of the Company. Warrants to purchase 200,000 shares at $.43056 per share are exercisable and expire July 9, 1995 and options to purchase 60,000 shares at $8.00 per share are exercisable prior to November 6, 1996.

Upon the exercise of the warrants to purchase 200,000 shares, the Company is required to issue 38,664 additional warrants to certain lenders at the same exercise price and terms.

**(4) Inventories**

At February 29, 1992 and August 31, 1991, inventories consist of:

| | February 29, 1992 | August 31, 1991 |
|---|---|---|
| Raw materials | $ 1,536,932 | 1,504,080 |
| Finished goods and work-in-process | 1,300,900 | 394,911 |
| | 2,837,832 | 1,898,991 |
| Less reserve for obsolescence | (46,040) | (52,951) |
| | $ 2,791,792 | 1,846,040 |

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Results of Operations

Contract revenue for the second quarter of the 1992 fiscal year, which ended February 29, 1992, decreased by 23.8%, or $1,528,862, from the same period during the 1991 fiscal year. Contract revenue for the first six months of the 1992 fiscal year decreased by 16.0%, or $1,724,687, from the same period during the 1991 fiscal year. This decrease is primarily attributable to management's decision to discontinue a low margin product line and the completion of certain government contracts for liquid oxygen and liquid nitrogen containment systems.

In the second half of the 1992 fiscal year, the Company expects to exceed the contract revenue which it recognized during the first half of the fiscal year, and total contract revenue for the 1992 fiscal year is projected to exceed that of fiscal 1991. During the first half of the 1992 fiscal year, the Company started manufacturing cryogenic trailers, which is a new market for the Company and contributed approximately $510,000 to contract revenue. The contribution to contract revenue, for this product line, is expected to increase in future periods. Backlog, which continues to remain strong, was approximately $9.4 million at February 29, 1992.

Gross profit for the second quarter of the 1991 fiscal year increased to $1,298,769 from $942,379 for the same period during the 1991 fiscal year while gross profit, as a percentage of contract revenue, improved to 26.6% from 14.7%, respectively. For the first six months of the 1992 year, gross profit increased to $2,333,826 compared to $1,756,372 for the same period during the 1991 fiscal year and, as a percentage of contract revenue, improved to 25.7% from 16.3%, respectively. These improvements reflect the results of discontinuing its low margin product line, more efficient utilization of manufacturing facilities and a more favorable product mix.

Selling, general and administrative expense, as a percentage of contract revenue, was 10.9%, or $531,318, for the second quarter of the 1992 fiscal year compared to 7.4%, or $477,785, for the same period during the 1991 fiscal year. For the first six months during the 1992 fiscal year, selling, general and administrative expense, as a percentage of contract revenue, was 12.0%, or $1,093,563, as compared to 7.7%, or $834,845, for the first six months during the 1991 fiscal year. This increase resulted from the additional expenses relating to the expansion of the sales and marketing force, which management implemented to position itself to meet the substantial opportunities which the company foresees in the near future. In addition, $54,000 of research and development costs was expensed during the first quarter of the current fiscal year.



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Amortization expense increased to $97,434 from $11,168 for the second quarter of the 1992 fiscal year as compared to the same period in the 1991 fiscal year. For the six months ended February 29, 1992, amortization expense increased to $187,987 from $22,335 for the six months ended February 28, 1991. This additional amortization resulted from goodwill and capitalized debt issuance and organizational costs relating to the August 31, 1991 acquisition of Cryenco, Inc. (see note 1 to the Condensed Consolidated Financial Statements). Prior to the acquisition, there was insignificant amortization of goodwill and debt issuance.

Operating earnings increased 47.8% from $453,426 in the second quarter of the 1991 fiscal year to $670,017 for the same period during the 1992 fiscal year. For the first six months of the 1992 fiscal year, operating earnings were $1,052,276 compared with $899,192 for the first six months during the 1991 fiscal year. This increase in operating income resulted from the Company's improved gross profit, due primarily to it's more favorable product mix, which more than offset the increased selling, general and administrative and amortization expense of the Company.

In the first six months of the 1992 fiscal year, the Company incurred $89,869 of merger related costs, as a result of the February 11, 1992 merger of Cryenco Holdings, Inc. with and into Gulf & Mississippi Corporation which subsequently changed its name to Cryenco Sciences, Inc. (see note 1 to the Condensed Consolidated Financial Statements). These costs were expensed into the period in which they occurred and will not affect future earnings.

For the second quarter of the 1992 fiscal year, interest expense was $298,068 as compared to $125,538 for the same period during the 1992 fiscal year, while interest expense for the first six months of the 1992 fiscal year was $569,696 as compared to $253,592 for the same period during the 1992 fiscal year. This increase was the result of the incurrence by the Company of $10,550,000 in acquisition debt required to finance the August 31, 1991 acquisition of Cryenco, Inc.

The effective income tax rate for the Company was 51.0% for the second quarter of the 1992 fiscal year, and 49.3% for the first six months during the 1992 fiscal year, compared to 40% for both the second quarter and the first six months during the 1991 fiscal year. This increase primarily reflects increased non-deductible amortization expense.

Net income for the second quarter of the 1992 fiscal year was $132,114 compared to $196,734 for the same period during the 1991 fiscal year. For the first six months of the 1992 fiscal year net income was $190,627 compared to $389,064 for the

first six months during the 1991 fiscal year. The changes in net income occurred as a result of the cumulative effect of the factors described above.

Liquidity and Capital Resources

Cryenco funds its working capital and capital expenditure needs from internally-generated funds and pursuant to a Credit Agreement with Chemical Bank, as agent for the lenders named therein including Chemical, which includes both a $7,250,000 term loan and a revolving credit facility permitting borrowings of up to $3,000,000 (the "Revolving Credit Facility") based upon inventory and receivable levels. Until May 31, 1992, Cryenco may borrow an additional $250,000 under the Revolving Credit Facility in excess of the formula-determined borrowing limit thereunder.

During the six months ended February 29, 1992, the Company borrowed $1,700,000 on its revolving credit facility, in addition to the initial $1,100,000 which it borrowed to finance the August 31, 1991 acquisition. This additional borrowing financed the net working capital needs of the Company, as well as a tax payment of approximately $1,040,000 and approximately $280,000 in capital expenditures.

Costs and estimated earnings in excess of billings on uncompleted contracts increase by $854,396 during the six months ended February 29, 1992. Approximately $670,000 of this increase is for contracts which are in process. Shipment of these products will begin in May of 1992 and be completed by the 1992 fiscal year end.

During the six months ended February 29, 1992, inventory increased by $945,752. This increase is in piece parts and work in process inventory, most of which will be used in production for the current fiscal year.

The Company believes that Cryenco's need for funds for its working capital and capital expenditure requirements in the foreseeable future will be sufficiently met by its cash generated from operations and its borrowing capacity under the Credit Agreement.

**Item 6. Exhibits and Reports on Form 8-K**

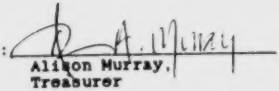
(a) Exhibits - None

(b) Reports on Form 8-K - The Registrant filed one Current Report on Form 8-K during the quarter for which this Report is being filed. Such current report, which is dated February 20, 1992, included disclosure in Items 1 and 7 relating to a change in control of the registrant resulting from the consummation of a merger involving the registrant as described therein.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CRYENCO SCIENCES, INC.

By: 
Alison Murray,
Treasurer

April 13, 1992